

Highlights from the 2007 Social Security and Medicare Trustees Report

Yesterday, the Social Security and Medicare Trustees released their annual report on the long-term health of the federal government's two largest retirement programs. The report puts the financial difficulties facing the Social Security and Medicare programs in perspective using a number of different measurements.

The Trustees conclude: “The longer we wait to address these challenges, the more limited will be the options available, the greater will be the required adjustments, and the more severe the potential detrimental impact on our nation.”

Unfunded Liabilities:

- Social Security is facing a projected 75-year (present value) unfunded obligation of \$4.7 trillion. Over the infinite horizon, Social Security’s unfunded obligations come to \$13.6 trillion.
- Medicare's financial difficulties are substantially worse with a projected 75-year (present value) unfunded obligation of \$34.2 trillion. Over the infinite horizon, Medicare’s unfunded obligations come to \$74.6 trillion

Exhaustion of Trust Funds:

- Social Security’s trust fund is projected to be exhausted by 2041. This date was moved back one year from the 2006 report. The Social Security trust fund balance reflects past Social Security surpluses that were spent on other items in the federal budget. Those surpluses from previous years have no relevance to the ability of the federal government to finance Social Security obligations in the future. In short, they are merely a collection of IOUs recording the federal government’s debt to the Social Security system— they do not speak to the federal government’s ability to pay these debts.
- In 2017, the Social Security system will begin running deficits.
- The Medicare Hospital Insurance fund (Part A) is projected to be exhausted in 2019. This date was moved back one year compared to the 2006 report.

Growth in Spending as a Percentage of GDP:

- Social Security spending is projected to increase from 4.2 percent of GDP in 2006 to 6.2 percent of GDP in 2030. After that, it grows more gradually rising to 6.3 percent of GDP in 2081.
- Medicare spending is expected to increase from 3.1 percent of GDP in 2006, to 6.5 percent of GDP in 2030, to 11.3 percent of GDP in 2081.
- Medicare and Social Security spending combined will equal 17.6 percent of GDP in 2081, which is close to the average amount the federal government has collected in federal revenue over the previous 40 years (18.2 percent of GDP).

Impact on the Federal Budget:

Another way to examine this issue is to look at how the Trustees project these two programs will crowd out funding for all other federal spending.

Currently less than 10 percent of federal income tax revenue—the primary source of funding for most functions of the federal government with the exception of Medicare and Social Security—is dedicated to Medicare and Social Security spending. By 2030, that figure is projected by the Trustees to reach 49 percent of income taxes; by 2040, the figure is projected to reach 63 percent of federal income taxes; and, by 2081 that figure is projected to reach 93 percent of federal income taxes.

Medicare Funding Warning:

The report also included a Medicare funding warning, triggered by a finding for the second year in a row that Medicare funding from general revenues (non-payroll taxes) is projected to exceed 45 percent of Medicare spending.

This Medicare funding warning causes a “cost containment” provision included in the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (P.L. 108-173) at the behest of the RSC to become effective, which requires the President to propose, and the Congress to consider, legislation to put Medicare financing below the 45 percent general revenue threshold. Thus, according to the Trustees, the President will have to propose such reforms next year.

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